

May 1, 2008

**HONORABLE MAYOR AND CITY COUNCIL:**

I am pleased to present the *2008-2009 Proposed Operating Budget*, which contains the Administration's recommendations for how the City of San José should fund operations and services for the 2008-2009 fiscal year. In formulating these proposals, the Administration has balanced the budget, closed a projected \$29.6 million gap in the General Fund (the combined shortfall in our base and development fee program services), addressed the City Council's three year priorities, and continued to maintain the strong conservative fiscal approach that has earned San José the highest bond rating of any large city in California.

A careful reading of the *2008-2009 Proposed Operating Budget* will reveal a modest addition of limited resources to address some of our critical service and infrastructure needs. Among these are recommendations to fund new police officers, Green Vision initiatives, staffing for new park and library facilities, as well as enhanced economic development efforts. However, as the City Council is well aware, San José continues to face significant and enduring long-term fiscal challenges. Accompanying the proposed additions mentioned above, are significant reduction proposals. Among these, readers will find proposals to reduce administrative services, library hours, and maintenance levels; phase out certain school-based programs (unless they cannot be re-tooled to share responsibility with the City); shift funding sources; and increase fees. Placed against the larger context of both an enduring structural deficit and six straight years of significant budget reductions, the Administration has struggled to prepare a Proposed Budget that meets the test of both sound professional advice and public acceptability. This Proposed Budget is the product of significant staff analysis, deliberation, weighing and vetting of bad choices. We realize that despite our best efforts, the City Council is faced with some difficult decisions.

Since the worst of the downturn began seven years ago, the City has eliminated more than 450 positions and reduced the General Fund budget by more than \$330 million. Through belt-tightening asking the organization to do more with less, and strong professional management, we have spared our customers from feeling the full effects of the reductions to dates. But with each successive year, the decisions get more difficult, and this year's proposals will be felt more directly by our residents and businesses.

## 2008–2009 PROPOSED BUDGET MESSAGE

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Exacerbating the challenges contained in the *2008-2009 Proposed Operating Budget* is the local economy, which continues to show declining revenues in several key areas, reflecting the state of the larger national economy. While economists continue to argue over whether we are currently suffering a national recession, it is clear that locally the slow recovery from earlier in the decade has leveled off. Even under the best of the scenarios, only weak growth is projected in the City's economically sensitive revenues for 2008-2009, driven by the declining housing market, faltering financial sectors, and rising energy costs. To date, the local economy has fared better than California and the nation as a whole based on the strength of the local businesses and the types of industries located here. However, this region is not immune to the larger economic influences.

In this environment, growth in the City's largest revenue sources, Sales Tax and Property Tax, is expected to be much lower than in recent years. The revenue estimates contained in this Proposed Budget should be attainable if the economy does not get appreciably worse. Should the downturn prove to be more severe, the \$10 million Economic Uncertainty Reserve would be available and could serve as a safety valve until any necessary re-calibration between revenues and expenses occurs. However, with the conservative revenue projections assumed in this budget, that should be unnecessary, and given four more years of projected operating deficits totaling as much as \$75 million, the Economic Uncertainty Reserve should be preserved at all costs.

In recognition of the difficult financial challenges facing the City, elimination of the structural deficit was established last year as one of the City's 3-year goals. This Proposed Budget makes progress in this regard by closing 91% of this year's General Fund deficit with ongoing dollars, thus reducing the negative impact on future budget years that would occur if one-time money was used to address ongoing needs. While this falls short of the ideal goal that all of the City's ongoing costs be funded with ongoing dollars, additional reductions are highlighted in this message as Tier Two proposals that could be used by the City Council to achieve a 100% solution. Beyond Tier Two, additional reductions are also noted, that could be employed to address any state budget balancing impacts on the City, or other unforeseen actions such as higher than anticipated compensation increases resulting from ongoing negotiations with City labor groups.

### **BUDGET PROCESS**

Despite the ongoing fiscal challenges, the recommendations in the *2008-2009 Proposed Operating Budget* continue to focus on City Council priorities, directing resources toward essential services such as public safety, basic infrastructure requirements, economic development opportunities, and maintaining the City's strong commitment to neighborhoods.

Changes to increase transparency and openness that were initiated by the Mayor and City Council last year have now become part of the annual budgeting effort. Development of this Proposed Budget began in January, with a citywide *Budget Prioritization Survey* and the *Neighborhood Budget Priority Setting Session*. In February, the City Council and City's Senior Staff held a *Priority Setting Session*. In March, the City Council approved the *Mayor's March Budget Message* providing direction to the Administration regarding formulation of this *Proposed Operating Budget*. Community meetings to discuss the budget are being held in all ten Council districts during April and May, and the City Council will hold eight Budget Study Sessions in early May. Finally, two public hearings are scheduled for May 13, and June 16<sup>th</sup>, before final approval of the *2008-2009 Adopted Operating Budget*.

## 2008–2009 PROPOSED BUDGET MESSAGE

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### **BUDGET PROCESS (CONT'D.)**

#### *Structural Deficit*

Adding to the complexity of the current year effort, however, is a parallel initiative designed to address the larger structural deficit. While the focus of the *2008-2009 Proposed Operating Budget* is the revenue and expenditures for the coming year, all of the proposals contained in this document have been formulated against the looming backdrop of the structural deficit. Even before work on the Proposed Budget was being finalized, a Stakeholder Group directed by the City Council to develop advantages and concerns for a Three-Year General Fund Structural Deficit Elimination Plan has begun a series of public meetings. Three components make up the \$137 million deficit: 1) the \$75 million shortfall contained in the most recent *Five-Year Forecast*; \$40.2 million on the City's list of *Unmet/Deferred Infrastructure and Maintenance Needs*; and, 3) the unfunded costs for *General Fund Retirement Benefits* which are currently projected at \$21.6 million.

The Mayor made elimination of the structural deficit a top priority for the organization with his March 2007 Budget Message. To launch this effort, the City contracted with Management Partners, a consulting firm specializing in assisting with local government problem solving. Management Partners conducted extensive research and outreach, developed a comprehensive list of more than 300 potential strategies to attack this problem and vetted those strategies with a diverse group of stakeholders. The *City Manager General Fund Structural Deficit Task Force* working with Management Partners then reviewed and prioritized the strategies, narrowing the list to the top 21 viable possibilities. These were further reviewed and evaluated by the Mayor's Budget Shortfall Advisory Group (BSAG), whose recommendations were then approved by the City Council. These recommendations set out an aggressive schedule for next steps, including the establishment of the new stakeholder outreach process to identify advantage and concerns for these and other strategies that might be developed. The BSAG recommendations also directed the City Manager to identify and return with recommendations for time-sensitive proposals which should be moved forward quickly. The City Manager will bring forward a Manager's Budget Addendum (MBA) with these recommendations in time for consideration later in May 2008. With all of the concurrent budgeting activity happening in 2008, readers may find it difficult to keep track of the current activities.

#### *Public Engagement*

This year's *Budget Prioritization Survey* gathered responses from 1,000 residents in English, Spanish and Vietnamese. The results were very similar to last year's survey – a majority of residents believe the City is currently spending the right amount of money in key service areas. If additional money was available, those surveyed would prefer that new dollars be targeted for police services and street maintenance and repairs. When asked to rank three mechanisms for solving the structural deficit, changing the way the City delivers services was preferred by the vast majority (67%) over either reducing services (10%) or raising revenues (16%). The day-long *Neighborhood Budget Priority Session* identified neighborhood priorities for any unallocated funding that might be available, and also prioritized strategies for solving the structural deficit. At the full day *Council Priority Setting Study Session*, the City Council, Council Appointees and Senior Staff collectively evaluated and reaffirmed

# 2008–2009 PROPOSED BUDGET MESSAGE

## **BUDGET PROCESS** (CONT'D.)

### *Public Engagement* (Cont'd.)

the five three-year priorities for the City and prioritized where unallocated funds General Fund and Redevelopment dollars should be targeted. The Administration has used these priorities in crafting the recommendation contained in this proposal. A number of the recommended budget actions support and advance the five goals and are identified in Table 1 below:

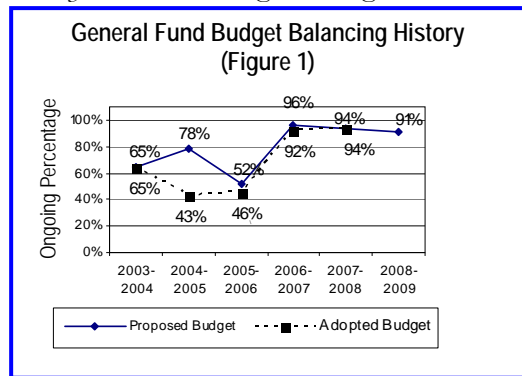
<b>PROPOSED ACTIONS FOR CITY PRIORITIES</b> (Table 1)	
<b>3-Year Goal</b>	<b>Proposed Budget Actions</b>
Regain our status as the safest big city in America	<ul style="list-style-type: none"><li>• 15 new Police Officers for property crimes, community policing and traffic calming activities. (\$967,000, \$1.7 million ongoing)</li><li>• Sustained current patrol and investigative functions for gang and violent crimes— existing staffing levels maintained</li><li>• San José BEST funding increase of \$1 million —annual investment now \$4 million.</li><li>• South San José Police Substation and new fire facilities under construction.</li><li>• Essential emergency services — fire suppression and emergency medical services — maintained.</li></ul>
Eliminate the structural budget deficit	<ul style="list-style-type: none"><li>• Down payment of \$1.9 million (ongoing) to begin addressing unfunded liability associated with post-employment benefits.</li><li>• One-time funding for retiree health care studies. (\$150,000)</li><li>• Funding for Three-Year General Fund Structural Deficit Elimination Plan, Outreach, and additional analysis. (\$175,000)</li><li>• Service Delivery Optimization/Review – funding to evaluate alternative service delivery options. (\$350,000)</li><li>• Revenue Strategies — Business Field Enforcement Pilot Program to identify non-compliant businesses (\$500,000)</li><li>• Addition of a Business Tax Administration Fee. (\$1.4 million)</li><li>• Wellness Program to reduce future health care benefits premium. (\$314,000)</li></ul>
Reduce deferred maintenance and the infrastructure backlog and develop a strategy to improve the infrastructure	<ul style="list-style-type: none"><li>• Deferred maintenance and infrastructure backlog funds (one-time) for building facilities, technology, and transportation infrastructure. (\$5 million)</li><li>• Funding for new transportation capital assets. (\$312,000)</li><li>• Pavement maintenance funding (Prop 1B and 42) from the state of California.</li><li>• Significant utility infrastructure investments in the Water Pollution Control Plant, municipal water, storm sewer and sanitary sewer systems supported by proposed utility rate increases.</li></ul>

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Increase economic vitality	<ul style="list-style-type: none"> <li>• San José Green Vision resources to promote San José as a leader in clean environmental innovation. (\$1.6 million General Fund/\$7.6 million all funds)</li> <li>• Economic Development Officers for San José Industrial Development and City's Retail Strategy. (\$237,000)</li> <li>• Business Owner Space.com network partners support (\$100,000).</li> <li>• Creation of a Downtown Coordinator position in the City Manager's Office to facilitate downtown issues. (\$109,000)</li> <li>• Development Fee Programs service levels maintained by balancing fee increases, prudent use of fee reserves, and position eliminations (Building, Fire, Planning and Public Works Fee Programs).</li> </ul>
Provide full funding for parks, pools, community centers and libraries, including maintenance, operation and development	<ul style="list-style-type: none"> <li>• New parks and community facilities resources (e.g. Mayfair and Roosevelt Community Centers). (\$1.8 million)</li> <li>• Staffing for three new branch libraries — Joyce Ellington, Pearl, and Willow Glen, offset by the closing of one library (Educational Park) for renovation. (\$861,000)</li> <li>• Ongoing funds to staff Northside Community Center. (\$380,000)</li> <li>• Continuation of library and community center staffing and operations during peak usage demand</li> </ul>

### **BALANCING STRATEGIES**

The 2008-2009 Proposed Operating Budget has been prepared consistent with the Budget Balancing Strategy Guidelines approved by the Council as part of the *Mayor's March Budget Message*. As noted above, 91% of the General Fund budget shortfall has been eliminated in this Proposed Budget with ongoing dollars. While every one-time dollars used to close the deficit adds another dollar to next year's deficit, we also know that some actions, no matter how fiscally sound, may be unacceptable to our residents and businesses. We have used our best professional judgment to balance these two competing needs. While a strict adherence to the policy of funding ongoing programs and services with only ongoing dollars is an important goal, in the context of an \$913.8 million General Fund Operating Budget, and in light of the severity of the reductions that would be required to close the remaining gap, it is the Administration's belief that the use of \$2.7 million in one-time dollars (0.3% of the General Fund Operating Budget) to close the current deficit still meets the test of sound fiscal principles. As Figure 1 shows, this year's recommendations are generally consistent with the ongoing balancing actions taken in the two most recent years. Should the City Council wish to close the current deficit with only ongoing dollars, the Administration has evaluated and is providing in this document an additional \$2.7 million in reduction contingencies. These actions would be available should the Council wish to implement 100% ongoing actions, or to address impacts to



## 2008–2009 PROPOSED BUDGET MESSAGE

### **BALANCING STRATEGIES** (CONT'D.)

budget balancing resulting from new developments such as: substitutions made to recommended actions in this Proposed Budget, potential state actions as proposed by the Legislative Analyst's Office, which currently threaten \$6.9 million in City funds, resulting in additional budget shortfalls, and/or unanticipated employee compensation costs resulting from contract negotiations that exceed those presumed in the Proposed Budget.

The Tier Two Options table below displays a short description of each contingency reduction proposal, along with the 2008-2009 and ongoing savings associated with the proposal. City employees who would be impacted by any of these actions have already been notified. As is apparent, the proposals in this list would severely impact many of the City's core services. While these deeper cuts are not recommended, they would be available should any of the developments identified above cause the General Fund budget balancing strategy to require additional expenditure reductions.

<b>TIER TWO OPTIONS</b> (Table 2)			
<b>Additional Program Reductions</b>	<b>FTE</b>	<b>2008-2009</b>	<b>Ongoing</b>
<b>Human Resources Recruitment Staffing</b> By rescinding the proposed addition of a Principal Office Specialist in the Employment Division of Human Resources, many advancements made in the past year to streamline the hiring process will be reversed. Loss of the Principal Office Specialist would transfer 50% of the data entry workload to the professional staff, an inefficient use of their time. The hiring process will be increased by at least 2 weeks and will reduce positions in Employment to an all-time low, not seen since 1999.	(1.00)	(76,000)	(78,000)
<b>Transportation Events Coordinator</b> Eliminating this position would negatively impact coordination and management of over 450 events in and around the downtown area each year. The position is responsible for developing transportation and parking management plans for these events. Much of the workload cannot be absorbed by other staff and since the goal for these events is to stimulate economic development and interest in the downtown, the City has not charged for these services and there is no plan currently to begin charging a fee for these services.	(1.00)	(110,000)	(120,000)
<b>Living/Prevailing Wage Program</b> This would be a 50% reduction of the Labor Compliance staff (1 of 2) dedicated to monitoring service and maintenance contracts. With only one position responsible for monitoring these contracts, the option in 2008-2009 would be to either concentrate exclusively on informing contractors of their responsibilities or concentrate exclusively on enforcement of a few of the City's largest contracts.	(1.00)	(57,000)	(114,000)

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<b>Street Landscape Maintenance</b> Elimination of three additional positions would result in each of the remaining positions being responsible for 14 acres of landscape, up from the current 8.3 acres per maintenance worker. The industry standard per maintenance worker is 2.5 acres. As a result, the percent of landscapes in good or better condition would drop from 40% in the current year to 35% by the end of 2008-2009.	(3.00)	(216,000)	(232,000)
<b>Street Light Shut Off</b> This proposal shuts off approximately 10% of streetlights (approximately 6,000) along arterials and in industrial areas with high ambient lighting levels to generate savings and reduce electricity consumption. Residential streetlights would not be impacted. DOT will coordinate with Police and Economic Development to minimize safety and business impacts. The percentage of operational streetlights will decrease from 98% to 85%. It is anticipated that streetlight complaints will increase.		(422,000)	(459,000)
<b>Community Facilities Re-Use</b> Elimination of 9.0 Recreation Leader PT positions beginning in 2009-2010 would leave 2.0 staff to oversee use of the 17 existing re-use sites by community based service providers. The remaining two positions would respond to facility issues, manage contracts and conduct routine site evaluation to ensure compliance with agreements at all 17 locations. With the Council's recent approval of the new reuse policy, implementation will require the existing positions. Therefore under this proposal, these positions would be converted to one-time funding in 2008-2009 to allow the implementation to continue. However, if a service provider cannot be located during this period for any site, that site would close.	(9.00)	0	(303,000)
<b>Community Centers Closure</b> This action would eliminate 7.5 positions and close operations one day per week at 10 multi-service community centers or "hubs" and 17 satellite centers, providing family, senior and youth programming. The proposal would decrease operations from the current 5.5 day per week model, to a 4.5 day per week operation, with the majority of the closures occurring on Mondays or Fridays.	(7.50)	(252,000)	(306,000)
<b>Police Traffic Enforcement Team (1 of 7)</b> The elimination of one of seven Traffic Enforcement teams (1 Sergeant and 4 Officers) as of January 2009 would impact response and investigation of non-fatal traffic accidents and reduce neighborhood traffic calming efforts.	(5.00)	(400,000)	(759,000)
<b>Mayor, City Council, Appointees, CBOs</b> Consistent with City Council direction, any reductions in non-public safety city service areas will automatically increase the reduction for the Mayor, City Council, Appointees, and CBOs. The dollars in this category reflect the new higher average reduction that would result from the reductions listed above for non-public safety city service areas. The reductions imposed would increase from 6% to 6.9%.	TBD	(356,000)	(354,000)
<b>Total</b>	<b>(27.50)</b>	<b>\$ (1,889,000)</b>	<b>\$(2,725,000)</b>
Note: Any proposals added to the balancing strategy would generate one-time savings in 2008-2009. It would be recommended that this savings be allocated to the Deferred Maintenance and/or the Economic Uncertainty Reserve.			



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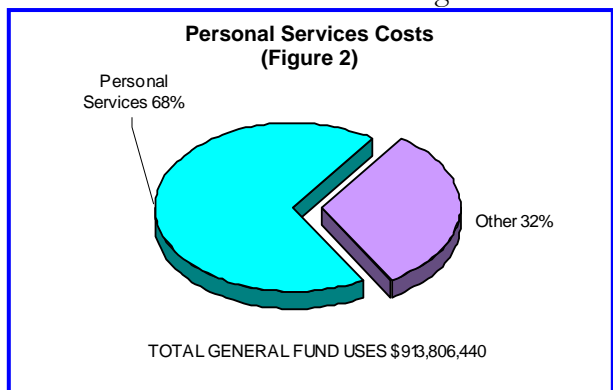
## **BALANCING STRATEGIES** (CONT'D.)

Should the \$2.7 million in contingency actions above be insufficient to address budget balancing needs that may arise, the Administration would need to develop a third set of actions beyond those included in the Proposed Budget and those identified in Tier Two. Because the *2008-2009 Proposed Operating Budget* and previous year reductions have relied more heavily on the non-public safety CSAs to address the budget shortfall, there are few opportunities for further reductions in these areas without severe impacts on service delivery and organizational health. Thus, a preliminary analysis suggests additional reductions would likely impact every CSA, including Public Safety. These reductions could potentially include: 1) further reductions in library and community center hours; 2) rescinding proposed new investments included in this document such as for Economic Development to support retail and facilitate industrial project development, and half of the new Police Officers in the General Fund; 3) the complete eliminations of the Park Ranger Program, Elementary School Crossing Guard Services, and/or Landscape Maintenance; and/or, 4) significant reductions to Regional Park Recreational Programs and other public safety services including School Liaison Sworn Staffing and Neighborhood Watch. We hope ultimately that we do not have to implement any additional reductions, as implementing almost any of these proposals would substantially damage community service levels in key core service areas.

### *Workforce Impacts*

Our ability to sustain services throughout the past seven years has rested on a foundation of conservative fiscal policies adhered to by the City Council and the organization. We have continued the freeze in hiring for non-critical positions, first imposed in 2001 with the desired effect of reducing expenditures and preserving vacancies to avoid layoffs. The number of City employees remains down from a high of nearly 7,500. The 6,953 positions included in the 2008-2009 Proposed Budget, represents a net decrease of 39 positions from last year. While some new positions are added in this Proposed Budget, a number of employees are negatively impacted as well. Of the 164 positions eliminated in this Proposed Budget, some 45 are filled positions. All of the individuals potentially impacted by the recommendations in this budget have been notified. It is a mark of pride and successful management that over the past six years, during which time more than 450 positions have been eliminated, not one fulltime employee has left the City involuntarily. Instead, we have been able to move these employees into other needed positions that, though necessary to provide services had been held vacant. This has not occurred, however, without disruption and retraining, and is a source of organizational instability.

There are some who have argued that this approach has made the task of eliminating the structural deficit harder. These critics say that the workforce does not fully understand the severity of our present fiscal situation, because through measured reductions we have spared them from more scarring impacts. Solving our structural deficit will continue to require sacrifice on all of our parts, and our employees would no doubt be more prepared for sacrifices had they seen some of their coworkers leave the organization





## 2008–2009 PROPOSED BUDGET MESSAGE

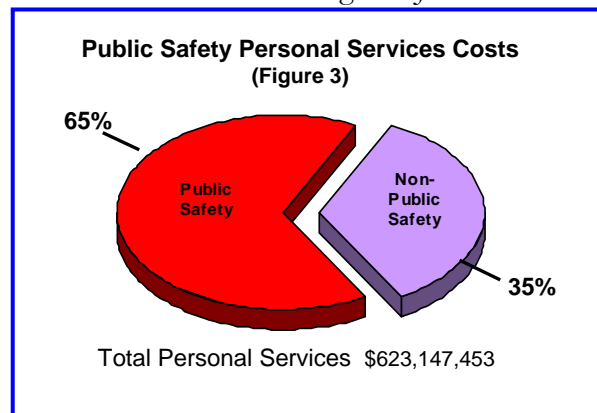
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### **BALANCING STRATEGIES (CONT'D.)**

#### *Workforce Impacts (Cont'd.)*

involuntarily. However, the City has a well-earned reputation for treating its employees with compassion and respect. We will continue engaging with our employees and bargaining groups to ensure that they fully understand the severity of our fiscal situation and that they are partners as we seek solutions to our long-term problems.

As a municipal organization, the City's primary function is to deliver services to our community, which takes people. As a result, as has been noted before, the largest portion by far of General Fund dollars goes to pay for the salaries and benefits of the City employees who deliver those services. As shown in the Personal Services Costs chart (Figure 2, previous page), approximately two-thirds of General Fund expenditures are tied directly to personnel costs, and fully 65% of these personnel costs (Figure 3) are in Public Safety, a high priority area. It is worth noting, that our two largest revenue sources, (Sales Tax and Property Tax) pay for only 83% of the City's General Fund Public Safety costs. Together, these two charts demonstrate the dilemma facing San José. The cost of simply continuing the current level of services pushes higher each year, driven partially by cost of living increases, but more by the cost of providing health and retirement benefits. And as had been noted in previous messages, one-third of our employees will be eligible to retire in the next five years. As the City competes to attract new talent additional upward pressure on the budget will be felt.



Even in the worst of times, as priorities shift and new needs are identified, modest additions are required. This year is no different. Approximately 120 new positions are proposed for addition in this budget from the Forecast Base Budget level – 53 of them previously committed through Council action including approval of the Mayor's March message. The targeted additions are concentrated in several key areas, such as:

- **Public Safety**, with the addition of 15 new Police Officers, per direction in the Mayor's March Budget Message, to address identified needs including property crimes, traffic calming, and community policing;
- **Neighborhood Services**, with 46 positions to provide services for new libraries and community centers, and meet other Parks maintenance requirements, and staffing at the Northside Community Center.
- **Airport**, with 11 positions to enhance terminal operations and aviation safety programs.
- **Finance**, with 5.5 positions for enhanced monitoring and collections.
- **Economic Development**, with 4 positions to support the San José Retail Strategy; industrial development; coordination efforts downtown where we need to manage and support the changing environment as our core evolves into a new neighborhood; and support and oversight of non-profits to ensure they are stable in providing services and better positioned to operate in a fiscally sound way that does not require additional support from the City.

# 2008–2009 PROPOSED BUDGET MESSAGE

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## **BALANCING STRATEGIES (CONT'D.)**

### *Workforce Impacts (Cont'd.)*

- **Environmental Services**, with 15 positions to support programs such as the Treatment Plant Capital Project delivery, the *Fats, Oils, and Grease* program expansion, the Construction and Demolition Recycling Program and "Zero Waste" - Organic Materials Recovery.

## **ECONOMIC PERFORMANCE**

Each year, one of the most significant challenges facing the Administration in formulating a budget is projecting the condition of the local economy and the associated impact on City revenues. For the 2008-2009 Proposed Budget, the revenue estimates have been built on an assumption of minimal economic growth. With continuing debates about whether the economy is or will be in a recession, the overall economic outlook is not positive. The current slowdown is expected to dampen growth in the City's largest General Fund revenue sources, Sales Tax and Property Tax, in the upcoming year.

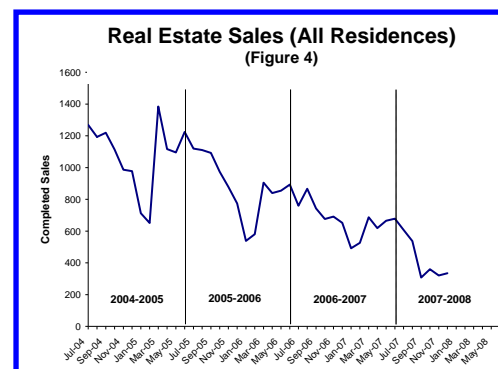
### *National Outlook*

The national economy is expected to be even weaker in 2008 than it was in 2007, which was a year characterized by a spiraling drop in economic performance. The housing crisis and the severe problems in the credit, housing and energy markets are expected to continue to impact economic performance. While the March 2008 UCLA Anderson Forecast continues to hold onto its no recession prediction, it points to a very weak economy: "Although we are officially not calling for a recession, it will not take much to put the U.S. economy into a recession. Should that occur, a two quarter decline in real GDP on the order of 1% a quarter would trigger absolute job declines this year and an unemployment rate of 6% by the end of the year. After all we are in a perfect storm consisting of the worst credit crunch in decades, falling housing prices, and \$100 oil. Indeed, if history and global experience is any guide, the hangover from the mid-decade credit boom could last for quite some time."

Not surprisingly, consumer confidence also continues to fall significantly. On a national level, the Conference Board Consumer Confidence Index, which had declined sharply in February, fell further in March to a five-year low. In April, the University of Michigan Consumer Confidence survey dropped to its lowest level in 26 years. High food and fuel prices, coupled with shrinking incomes and falling home values, are pushing consumers to save their money rather than spend it.

### *City of San José Outlook*

Consistent with the national outlook, the severe slowdown in the housing market is expected to continue to negatively impact this region. Although it is still anticipated that the local economy will



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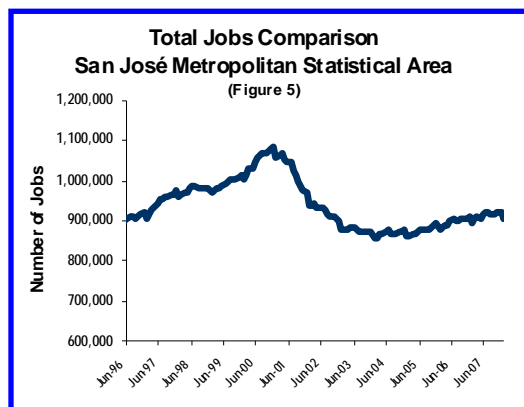
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## ECONOMIC PERFORMANCE

### City of San José Outlook (Cont'd.)

fare slightly better than the national economy, this region will not be immune to the many negative factors pulling the economy in a downward direction. As shown in the Figure 4, the number of housing sales in San José has dropped significantly in the last year. The slowdown in the housing market dominates current conditions and is expected to directly impact a number of the City's revenue sources, including Property Tax and Construction and Conveyance Taxes. The slowdown in this area can also be expected to indirectly impact Sales Tax collections with the downward spending in construction materials and the reduction of consumer spending as the "wealth effect" associated with housing appreciation diminishes.

Slower growth in employment and increases in the unemployment rate are also indicators of a slowing economy. Job growth, while still positive, lags behind the prior year, as shown in Figure 5 (next page). The employment figure for March 2008 of 916,600 was less than 1% above the March 2007 figure of 909,700 jobs. This growth rate is tracking below the job growth of 2.4% experienced from March 2006 to March 2007. The number of jobs in this region remains well below the peak of 1.1 million jobs in December 2000.



The unemployment rate for the San José area of 5.5% in March 2008 was above both the February 2008 figure of 5.2% and the March 2007 rate of 4.5%. The March unemployment rate for San José was above the unadjusted rate for the nation of 5.2% but was below the 6.4% unadjusted figure for the state.

Staff will continue to carefully monitor employment levels, unemployment rates, the performance of the local housing market, and Sales Tax receipts as indicators of the condition of the local economy. The growth rates

for revenue categories directly tied to property sales have been adjusted downwards for 2008-2009, but are still positive. The remaining economically sensitive revenues are also built on the assumption that the slowing economy will dampen growth in 2008-2009, but not result in actual declines.

While weak economic growth was anticipated in formulating 2008-2009 revenue estimates, it is important to keep in mind that only about half of the City's revenue categories are tied directly to the performance of the economy. The remaining areas, while impacted by overall economic performance, are driven by other factors. For instance, growth in the Utility Tax and Franchise Fee categories is typically more heavily impacted by rate changes than economic growth. Collections from local, state and federal agencies are driven by the grant and reimbursement funding available. Because these revenue sources do not track directly with the performance of the economy, they act as a buffer during an economic slowdown, easing the impact of a drop in economically sensitive categories. Conversely, in times of economic strength, this can hold down the City's overall revenue growth.

## 2008–2009 PROPOSED BUDGET MESSAGE

### **BUDGET OVERVIEW**

In the 2008-2009 Proposed Budget, the total net proposed funding is \$2.7 billion for all City funds (General, Special, and Capital). This is \$1.06 billion or 28.2% below the 2007–2008 Adopted Budget (Table 3 below). This overall decline is due to two primary factors: 1) a 64.9% decrease in the Capital Funds, which was the result of a substantial decrease in the Airport Capital Program and bond-funded programs as many of the previously budgeted projects are now complete or underway; and, 2) the fact that the Proposed Budget does not yet include the significant amount of funding that will be rebudgeted and added to the final Adopted Budget to complete multi-year projects. As noted above, the total number of positions decreased by approximately 1%, to a total of 6,953.

<b>2008–2009 PROPOSED BUDGET — ALL FUNDS</b> (Table 3)			
	<b>2007–2008 Adopted</b>	<b>2008–2009 Proposed</b>	<b>% Change</b>
General Fund	\$ 1,031,779,500	\$ 913,806,440	(11.4%)
Special Funds	1,759,589,935	1,621,893,843	(7.8%)
<Less: Operating Transfers>	(1,040,949,214)	(548,865,207)	(47.3%)
<b>Net Operating Funds</b>	<b>\$ 1,750,420,221</b>	<b>\$ 1,986,835,076</b>	<b>13.5%</b>
Capital Funds	\$ 2,004,105,214	\$ 730,659,947	(63.5%)
<Less: Capital Transfers>	(12,828,000)	(32,000,000)	149.5 %
<b>Net Capital Funds</b>	<b>\$ 1,991,277,214</b>	<b>\$ 698,659,947</b>	<b>(64.9%)</b>
<b>Net Total</b>	<b>\$ 3,741,697,435</b>	<b>\$2,685,495,023</b>	<b>(28.2%)</b>

### **Budget Balancing Strategies**

Our earliest projections for 2008-2009 predicted a \$24.8 million shortfall in the General Fund (excluding the development fee program). In October, the City Council established a *2008-2009 Future Deficit Reserve* by setting aside \$7.3 million of year-end fund balances during the final reconciliation of the 2006-2007 Budget. In February, the Five-Year Forecast revealed a slightly lower projected shortfall of \$22.3 million. The slight improvement was the result of downward adjustments to the revenue estimates of \$10.5 million, reflecting the deteriorating economic environment, offset by improvements to the base expenditure estimates of \$13 million. Further refinement of revenue and expenditure projections explained in detail later in this document (Attachment A) resulted in a final General Fund shortfall in this Proposed Budget of \$23.4 million. The 2008-2009 shortfalls increase to \$29.6 million once the development fee programs are included.

In preparing the 2008-2009 Proposed Operating Budget, the Administration was guided by a set of general budget balancing strategy guidelines contained in the City Manager's Budget Request and

# 2008–2009 PROPOSED BUDGET MESSAGE

## **BUDGET OVERVIEW (CONT'D.)**

### **Budget Balancing Strategies (Cont'd.)**

adopted by the Council in the Mayor's March Budget Message. This Proposed Budget also responds to the 47 directives contained in the Mayor's March Budget Message with descriptions of how the budget responds to these referrals (Attachment B). A total of three of these directives will be responded to through the Manager's Budget Addenda process and additional detailed responses for another nine directives will be brought forward to the City Council over the next year. A description of responses to the City Auditor's referrals is also included (Attachment C).

Consistent with City Council direction, funding for community-based organizations is proposed to be reduced by 6%, an amount equal to the average reduction for all non-public safety city service areas, partially offset by a 3.75% cost-of-living adjustment, for a net impact of 2.25%. The resulting 2008-2009 Proposed Operating Budget recommends some ongoing cost reductions, necessary fee increases, and once again the strategic use of reserves. The table below shows the matrix of balancing strategies and the dollars associated with each action.

<b>General Fund Budget Balancing Plan (Table 4)</b>	
	<b>In \$000s)</b>
<b>General Fund Shortfall</b>	<b>(23,360)</b>
<b>Development Fee Program Impact</b>	<b>(6,277)</b>
<b>TOTAL GENERAL FUND SHORTFALL</b>	<b>(29,637)</b>
<b>SOURCE OF FUNDS</b>	
2008-2009 Future Deficit Reserve (one-time)	7,271
2007-2008 Fund Balance/Reserves	12,473
Transfers from Other Funds	3,041
Fee Increases/Activity Level Adjustments	5,741
Miscellaneous	2,821
<b>Total Change in Source of Funds</b>	<b>31,347</b>
<b>USE OF FUNDS</b>	
Staffing & Non-Personal/Equipment Reductions	(15,267)
Funding Shifts	(3,590)
Use of Reserves (Committed Additions)	(2,749)
Technology & Capital Infrastructure Maintenance	6,074
City Council Direction (Mayor's Message)	4,756
Neighborhood Services Activities	2,701
New Facilities Operations & Maintenance	2,285
Public Safety Activities	1,674
Economic Development Activities	1,365
Miscellaneous	4,461
<b>Total Change in Use of Funds</b>	<b>1,710</b>
<b>Total Balancing Solutions</b>	<b>29,637</b>

## 2008–2009 PROPOSED BUDGET MESSAGE

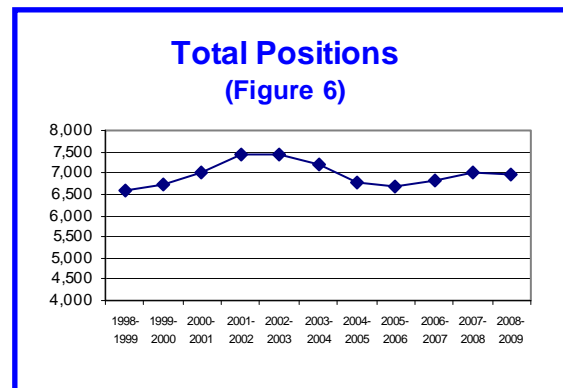
### **BUDGET OVERVIEW** (CONT'D.)

#### **Budget Balancing Strategies** (Cont'd.)

As noted above and consistent with each of the previous six budget proposals, there are real service reductions and employee impacts in this proposal. As shown in the table below, recommended changes from the Forecast Base Budget level in the Proposed Budget would result in the elimination of 97 positions and the addition of 121 positions, for a net increase of 24 positions. The net change from last year, however, is a reduction of 39 positions, as 63 positions were eliminated in the Forecast Base Budget many of which were limit dated.

<b>Changes in Position Count from 2007-2008 Adopted to 2008-2009 Proposed Budget (Table 5)</b>	
Forecast Base Position Changes	(62.92)
Proposed Reductions	(97.17)
Proposed Additions	121.46
<b>Total</b>	<b>(38.63)</b>

Of the positions recommended for elimination in the Proposed Budget, 9 full-time and 6 part-time employees would face redeployment or layoff. Staff will make every effort to find a redeployment opportunity for these employees. As indicated earlier, the total number of positions would fall to 6,953 in 2008-2009. As Figure 6 demonstrates, the total employee count remains roughly equivalent to our 2000-2001 employee count. In the intervening years, our City population has grown by 68,000, a 7% increase. Since 2002 when the harshest impact of the economic downturn hit the City budget, the net reduction of City positions totals 500, a decline of almost 6.7%.



#### **City Service Areas**

The following sections highlight the most significant proposals for each of the City's six City Service Areas (CSA). A more detailed recitation of the proposals for each CSA can be found in the detailed budget pages following this message.

#### ***Community and Economic Development***

While many other communities are experiencing declining real estate values and development delays, significant economic development and housing projects in North San José and Edenvale remain on schedule. As a result, to date the City's sales tax revenue and job growth have not declined as has been the case in many other communities, buoyed in particular by the innovative industries of clean technology, biotechnology, and nanotechnology. While other sectors of the local economy are holding steady, the impact of the home mortgage crisis has created a significant slowdown in the

## 2008–2009 PROPOSED BUDGET MESSAGE

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### City Service Areas (Cont'd.)

#### ***Community and Economic Development (Cont'd.)***

homebuyer market. Market-rate housing development has decreased in response, resulting in affordable housing having a larger percentage share of total residential development. In the current fiscal year there are, however, several successes worth noting: 1) increased retail presence from Costco, Whole Foods, and at two new shopping centers – San José Market Center and the Plant; 2) the growing clean technology cluster, including SolarTech's Center of Excellence; Underwriters Laboratory's largest solar testing and certification laboratory in the nation; Borgata Recycling; Bay Biodiesel; and solar companies Solopower, Stion, and the SVTC Photovoltaic Development Center which all moved into Edenvale; 3) the relocation of Critchfield into North San José; and 4) the expansion of BD Bioscience, eBay, and Cisco's Human Network Facility. These successes reflect staff's role in: 1) bringing key sites to the private sector decision makers that met their site selection criteria and were consistent with City land use policies; 2) eliminating their concerns regarding potential stumbling blocks to facilitate the land transactions; and, 3) assisting and facilitating the entitlement and permit processes.

As noted earlier, the Council-approved 3-year goals included a focus on increasing San José's economic vitality and generating additional City revenues, and the Proposed Budget recommends a number of strategies to augment key community and economic development initiatives, improve cost recovery levels of development fee programs, continue making measurable improvement in the permitting process, and minimize service level impacts.

*Strengthen the City's economic base to generate revenue and create jobs* – To facilitate the expansion and relocation of driving industry companies and retail businesses in San José, the City is proposing the addition of two additional Economic Development Officer positions. These positions will help generate additional City revenues and create new jobs in San José by implementing the Retail Strategy and facilitating key projects underway in industrial areas, such as North San José. This budget also proposes that a position be created in the City Manager's Office to liaison as we continue to transition our Downtown. Several policy changes and ordinances must be developed to facilitate the new residential community that is changing the culture of our Downtown to ensure that new and existing policies make Downtown a safe and vibrant center. Work will also focus on establishing a fair cost-sharing structure that responds to the 2007-2008 June Budget Message direction that the downtown entertainment businesses share in the cost of policing downtown activities. In addition, the Community and Economic Development CSA proposes to expand its support for small businesses. The Administration is recommending an investment of \$200,000 to strengthen the BusinessOwnerSpace.com (BOS) network of 39 service providers that offer free services to entrepreneurs and small businesses. This funding will support language translation of key marketing and technical documents, development of Customer Service protocols, tools and capacity building of partner staff, as well as improvements to the BOS website and small business outreach efforts.

As directed in the Mayor's March message, the Administration is recommending a significant investment to support San José's efforts to achieve the Green Vision goals and become a world center of clean technology innovation. The Administration proposes \$1.4 million in General Fund seed monies directed toward efforts that will have a significant return on investment, leverage outside resources, prepare the City for future investments, demonstrate cutting-edge technologies, or



## 2008–2009 PROPOSED BUDGET MESSAGE

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### City Service Areas (Cont'd.)

#### ***Community and Economic Development (Cont'd.)***

help engage residents and other stakeholders in achieving the goals. Key projects for 2008-2009 include energy efficiency initiatives for City facilities and low income families (projected payback period of two to three years), matching grants for the Department of Energy Solar America City Grant and state CalFire tree planting grants, training for staff to implement green building policies, and community engagement initiatives. In total, throughout this budget a Green Vision investment of \$7.6 million is proposed for 2008-2009. A detailed workplan for the Green Vision funding will be provided through a Manager's Budget Addendum.

*Facilitate the development of safe, healthy, attractive and vital communities* – Community planning and development remains very active as the City works to update its General Plan and make measurable improvement in the permitting process. *Envision San José 2040* was formally launched in October 2007 and is well underway. This multi-year community-based process will result in a General Plan update that guides new development to appropriate locations, strengthens economic development opportunities, creates viable housing choices for all San José households, addresses quality of life issues through infrastructure and service standards, and establishes measurable performance standards for environmental, fiscal, and economic sustainability.

In addition, the Development Services Partners (Planning, Building, Public Works and Fire) have worked hard to make measurable improvements in the development process over the past year, and the second annual customer satisfaction survey clearly demonstrates progress. For instance, out of 34 service dimensions showing statistically significant changes, 31 were in a positive direction. Additionally, overall the level of customer satisfaction increased statistically – more customers were *very satisfied* with the performance on their project. Despite this progress, the City continues to face revenue shortfalls in the development-related fee programs due primarily to the substantial increases in personnel costs such as retirement and health benefits. To close the gap and maintain service levels, this Proposed Budget would use \$2 million in fee reserves, impose modest fee increases, and make a number of one-time and ongoing staffing adjustments. The proposed fee increases are for Building (10%), Fire (4%), Planning (7%), and Public Works (10%). The proposed staff adjustments would decrease staffing by 16.69 positions in Building and 13.21 positions in Public Works; increase staffing by 3.2 positions in Fire and 4.19 positions in Planning; and permanently establish the Green Building Planner position.

*Provide a diverse range of housing opportunities* – The state-mandated General Plan Housing Element, which is the City's plan for delivering housing for all income ranges in our community, is on track to be completed this fiscal year. In addition, to expand San José's efforts to provide affordable housing and eliminate homelessness, this budget proposal recommends creating three staff positions using Housing funds to provide homeless services and improved management of increasing funding sources for Housing programs. The first position would provide emergency services to families made homeless due to a fire or other crisis, and work with the Office of Emergency Services to plan for interim housing for those made homeless by a regional disaster such as earthquake or flood. The second position would oversee the City's homeless program activities and grant administration to ensure the City's continued participation in the regional effort to end chronic homelessness. The third position is proposed to ensure the timely and accurate administration of the growing number of local, state and federal funding sources used in Housing programs. This new accounting position

## 2008–2009 PROPOSED BUDGET MESSAGE

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### **City Service Areas** (Cont'd.)

#### ***Community and Economic Development (Cont'd.)***

will monitor revenue and expenditures related to each source and track the resulting number of affordable housing being produced.

*Provide a range of quality events, public artworks, and cultural opportunities* – Public artworks, special events and festivals bring substantial visibility and economic impact to the City, and this budget proposal contains recommendations that support these activities. To alleviate the General Fund budget deficit, it is proposed that several arts programs be funded by the Transient Occupancy Tax Fund, and that funding for one staff position be shifted from the General Fund to the public art funding source in the Capital Improvement Program. In addition, it is recommended that the Small Wonders work plan receive ongoing support through a City and San José Redevelopment Agency partnership to ensure the completion of several initial projects.

These combined strategies – investments in high return activities, modest fee increases, judicious use of funding reserves, and staff reductions and reallocations – will help the Community & Economic Development CSA achieve its short- and long-term goals related to economic growth and vitality for the City of San José.

#### ***Neighborhood Services***

The focus of the Neighborhood Services CSA is to build capable communities and support the quality of life that makes San José a desirable place to live. Primary partners include: Code Enforcement, the Library, the Strong Neighborhoods Initiative, General Services, and the Parks, Recreation & Neighborhood Services (PRNS) Department. Over the past few years, this CSA has been particularly vulnerable to difficult economic times. Budget reductions have been significant and the Neighborhood Services area has been consistently challenged to be more creative, more efficient, and more strategic in its approach to service delivery. This Proposed Budget strives to protect this CSA's core services and seeks to direct resources toward essential services that allow the City to sustain its commitment to San José neighborhoods.

Some 25 positions will be added to PRNS in 2008-2009 to staff the expanded Mayfair and Roosevelt Community Centers which will open this year, other new neighborhood parks, and enhanced Animal Care Services revenue generation activities. In addition, 8 positions will be permanently funded to continue support of the JTS Northside Community Center. To partially offset these additions, approximately 8 vacant positions and a filled .75 position in parks and recreation activities will be eliminated.

In the past, many PRNS programs have been offered for free or at a minimal cost. Given the continued budget challenges; the Department has re-evaluated this practice. In lieu of further service reductions, PRNS is proposing to increase the fees charged on drop-in programs and Saturday Sports Leagues. An additional \$44,000 in new revenue would be collected annually from the aquatics program, facility rentals, adult sports, sports field reservations, and gym and fitness use. A scholarship program based on need would be available to ensure that all youth are served regardless of ability to pay. While this approach represents a move towards a new pricing philosophy, it is important to note that the proposal is offered to bring our costs in line with the market rate, and in lieu of additional cuts. It should be noted that this method is common in other

## 2008–2009 PROPOSED BUDGET MESSAGE

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### City Service Areas (Cont'd.)

#### *Neighborhood Services* (Cont'd.)

jurisdictions. Without the proposed fees, additional budget reduction proposals would be required.

Another recommendation in this Proposed Budget would shift oversight responsibility for Animal Care and Services to the General Services Department. While Animal Care and Services would continue to be part of the Neighborhood Services CSA; the shift in oversight will facilitate a more manageable span of control within PRNS and allow greater focus on traditional parks and recreation activities.

Fee adjustments and funding shifts have proven to be a vital strategy for the CSA in minimizing impacts to core services. The City anticipates some additional Tobacco Settlement dollars in 2008-2009. As a result, this Proposed Budget recommends that a portion of the Level 2 After-School programs, consisting of integrated recreation, literacy, math enrichment programs, as well as the cost of two analyst positions, be funded with Healthy Neighborhoods Venture Fund (HNVF) monies, resulting in a shift of \$742,000 in costs from the General Fund. The Proposed Budget also recommends that in 2009-2010 HNVF funding previously slated for sites with Levels 1 and 3 After-School programs, both of which offer a homework assistance component, be shifted to higher priority areas. In the approaching budget cycle, staff will work with participants, the Schools/City Collaborative, and other community-based organization which provide homework assistance to mitigate any impact. The shift of HNVF funds from sites currently with Level 1 and Level 3 programming will result in an ongoing savings of \$755,991. This use is consistent with the goals of HNVF and, as such, considered an appropriate use of funds; it also avoids additional General Fund reductions in core services. A special meeting of the HNVF Committee is planned to discuss these proposals. Under this 2-year strategy, staff will work through the Schools/City Collaborative in 2008-2009 to identify strategies that maximize funding and mitigate possible impacts.

The Library Department is nearing completion of the projects named in the Branch Library Bond Measure approved in November 2000. Ten of these libraries projects have been completed, five are under construction, two are in the design phase, two have gone out for bid and one, the Southeast Branch, is on the drawing board. With three new libraries opening in summer 2008 (Joyce Ellington, Pearl Avenue, and Willow Glen), the addition of 13.7 positions is proposed.

The elimination of Sunday hours at seven branch libraries is also proposed for a savings of \$413,000 in 2008-2009. When Sunday hours were added at these seven branches in 2005-2006, it was intended the branches would serve as regional gathering points since no other branch libraries provided Sunday service. An analysis of Sunday usage, however, reveals that the regional goal is not being achieved. Instead, on Sunday's the patrons come primarily from the surrounding community. In searching for cost savings, the elimination of Sunday hours was chosen because it would have the least impact citywide and on children, who primarily use libraries during the week. The Martin Luther King Jr. Library will continue to provide Sunday service. With this proposal, all branch libraries will continue to be open Monday through Saturday for 47 hours each week.

The Regional HUD Office has determined that the Anti-Graffiti/Anti-Litter program will no longer qualify for CDBG funding in 2008-2009, due to the continuing nature of the work. In order to

## 2008–2009 PROPOSED BUDGET MESSAGE

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### **City Service Areas** (Cont'd.)

#### ***Neighborhood Services*** (Cont'd.)

maintain existing service levels, it is proposed that the Anti-Graffiti program be funded through the General Fund, and the Integrated Waste Management and Storm Sewer Operating funds be utilized to support the Anti-Litter program. It is anticipated that this change will create greater flexibility in allocating staff resources and improve the City's ability to respond in a timely manner to the increased volume of graffiti tagging that San José neighborhoods have recently experienced.

Another recommendation contained in the 2008-2009 Proposed Operating Budget would eliminate the Summer Work Experience Program starting in 2009. The City Council last year eliminated year-round services, leaving just the summer program. This program currently serves just 110 youth annually, at a cost of \$237,000. In addition, it requires resources beyond current staffing levels to maintain adequate supervision. If approved, this reduction would go into effect in the summer of 2009. However, PRNS will mitigate this impact by providing referrals to other youth employment agencies in the area. Though the Summer Work Experience program provides valuable opportunities for youth to develop marketable skills, it is not a traditional core service for a parks and recreation department.

#### ***Public Safety***

Public Safety remains a top priority for San José residents as well as the City Council and the Administration. Police, Fire, the Office of Emergency Services, and the Independent Police Auditor have focused resources to achieve the best possible outcomes for safety, effectiveness and efficiency. Increased demands from expanding service areas, a growing population, and budget reductions over time have increased the challenges to achieving these outcomes consistently. Even with these challenges, performance for major crime data categories is anticipated to improve through 2007-2008 with the exception of gang-related incidents and auto thefts. Additionally, both the Police and Fire departments' citywide response time performance improved.

Although San José continues to be a safe large city, the increase in homicides since the beginning of 2008 compared to the last several years has caused concern. The Proposed Budget includes the addition of 15 new sworn police officers to help meet priorities such as rising property crimes, community policing, and traffic calming as directed in the Mayor's March Budget Message. The proposal recommends increasing San Jose Redevelopment Agency payments to the City for eligible capital projects to provide funding for 8 of the 15 police officer positions. The addition of these sworn positions will partially address the need for additional patrol and investigative services identified in the *Proposed Police Five-Year Staffing Plan: 2007-2012* presented to the City Council in November 2006. With the addition of these 15 positions, the Department will have added 30 officers in two years. However, with the expected annexation of County "islands" and the ongoing population growth, attention must continue to be paid to the Police Department staffing levels.

Proposed budget reductions in the Crime Prevention and Community Education core service area include the elimination of vacant crossing guard staff, maintaining current service levels through 2008-2009, with the planned elimination of crossing guard services at middle school intersections in 2009-2010. The City will work with schools and community members to explore alternative service delivery models that mitigate the impact of this change. Crossing guard services of one sergeant,

## 2008–2009 PROPOSED BUDGET MESSAGE

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### City Service Areas (Cont'd.)

#### ***Public Safety (Cont'd.)***

two coordinators, and 28.61 FTE filled positions serving 87 elementary school intersections would be maintained.

Effective January 2009, another reduction would eliminate 4 of the Department's 10 civilian crime prevention specialists. These positions staff the school-based *Challenges and Choices* program which serves 13 schools annually with an 11-week anti-violence program for 3<sup>rd</sup>, 5<sup>th</sup>, and 7<sup>th</sup> graders through classroom presentations. An optimization study will be conducted to explore opportunities for efficiencies in the City's many school-based programs to minimize impacts. Nonetheless, this budget reduction may affect the level of service associated with the Child Passenger Safety Seat program that promotes and assists in installation and inspection of child car seats; the Cyber Cop e-mail program that responds to public crime prevention advice inquiries; the Robbery Prevention program; presentations at safety fairs and other public events; and the SAVE (Safe Alternatives and Violence Education) program. A sergeant, an officer, and the remaining six crime prevention specialists would continue to staff Neighborhood Watch, SAVE, and the Child Passenger Safety Seat programs.

Proposed reductions in Police Investigative Services include the elimination of a Police Property Specialist position in the Property and Evidence Unit that has been vacant since August 2007. This unit, which will retain a staffing complement of 19, is responsible for intake, handling, safeguarding and storage of over 188,000 cases of active evidence. As investigative staff resources continue to be outpaced by the growth in cases received, this reduction may contribute to a growing backlog of unprocessed evidence.

Further reductions to non-sworn administrative positions have been included for the Police Department to help balance the 2008-2009 Proposed Budget. A Senior Office Specialist position in the Department's Research and Development Unit, vacant since January 2008, and the Secretary position supporting the Bureau of Administration Deputy Chief, vacant since November 2007, have been proposed for elimination in the Strategic Support area. New ways of doing business will be piloted in an effort to reduce impacts. Proposed staffing reductions in Police Records also will continue existing backlogs, despite gains made here during 2007-2008. To temporarily mitigate the impact of this proposal, temporary staffing will be provided to this unit through 2008-2009.

In the Fire Department, the Proposed Budget includes the continued implementation of a comprehensive Records Management System (RMS) through 2008-2009. The goal of RMS is to provide more efficient and effective reporting and analytical tools for fire and EMS incidents, training and certifications tracking, and target hazard management by reducing redundant data entry and improving accuracy and accessibility of data. Once RMS is fully implemented, better data management has the potential to reduce or capture the cost of EMS-related injuries, support increases in EMS first responder revenues, and identify Department changes that can reduce growing costs of operations and maintenance.

Responding to the Mayor's Budget Message to address the City's structural budget deficit while preserving essential services, the Fire Department intensified its analysis of staffing and apparatus

## 2008–2009 PROPOSED BUDGET MESSAGE

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### **City Service Areas** (Cont'd.)

#### ***Public Safety*** (Cont'd.)

deployments, including an assessment of absences, vacancies and overtime for line duty positions and relief staffing for the past four years. This analysis recommended possible adjustments in relief staffing levels to create cost efficiencies. In accordance with these findings, the Proposed Budget includes the elimination of two relief Fire Captains. The Fire Department will continue to prepare annual overtime and relief staffing analysis and bring forward additional proposals for consideration as needed.

With the anticipated demolition and reconstruction of Station 2 beginning July 2008, the Department also will deploy an alternatively staffed resource from Station 34 to respond to low-priority EMS requests in the Station 2 service area. This configuration will increase the availability of Engine 2 to respond to emergencies that are more time-sensitive. Data and analysis from the Fire Department RMS will evaluate the effectiveness of this approach for use in future deployment planning.

The Proposed Budget would also save \$368,000 annually with the elimination of the Hose Wagon at Fire Station 6, the only remaining hose wagon in the City. In its time, when apparatus carried only three-inch hose, the hose wagon performed a unique function by bringing the capacity of additional hose supply lines to extend water lines and bring more water to a large fire. However, with the addition of five-inch hose on all engine companies, this function has become outmoded, and all other hose wagons were phased out by the early 1990s. More recently, Hose Wagon 6 has been utilized to respond to non-emergency calls in the Station 6 area. However, these responses have continued to wane in the last three years, from a total of 104 in 2004-2005 to 70 in 2006-2007 (3.6% of the station's 1,931 calls). Of the 70 responses in 2006-2007, all were classified by the Fire Department as non-emergency; 35 were to EMS calls, 32 to calls categorized as "other," and three were to small non-threatening fires. Not included in these numbers are responses for the air unit. Since the Department now maintains two Air Units with twice the complement of air bottles, the Department would respond to calls for the Air Unit using other Department resources. The current independent response of Hose Wagon 6 with two firefighters to low-priority service request leaves Engine 6 with just three firefighters, diminishing its capability and potentially compromising crew safety. In keeping with Department's overall policy of maintaining four-person engine companies, keeping four firefighters on Engine 6 will ensure continuity of operations, robust capability, and citywide consistency. Under this proposal, the three Fire Engineer positions displaced by the proposed hose wagon elimination would be redeployed to fill Department vacancies due to anticipated retirements.

Also proposed for elimination are two administrative positions in the Fire Department; a reduction in overtime of \$100,000 for discretionary activities such as committees, public outreach, and training; and a reduction in non-personal/equipment of \$55,000.

#### ***Transportation and Aviation***

As noted earlier, the telephone poll conducted as part of the new community budget prioritization process rated traffic congestion, street maintenance, and pothole repair as leading issues of public concern, and these issues also topped the 2007 Resident Survey. While the City's economic and fiscal problems have challenged the departments tasked with providing safe, secure, and efficient surface and air transportation systems, they continue to pursue a series of innovative and aggressive initiatives to advance San José's livability and economic vitality.

## 2008–2009 PROPOSED BUDGET MESSAGE

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### City Service Areas (Cont'd.)

#### *Transportation and Aviation (Cont'd.)*

Maintenance of the surface transportation system – some 2,300 miles of streets – has been significantly underfunded, despite steady growth in infrastructure assets such as pavement, lighting, and landscaping. This has resulted in the City's estimated \$454 million one-time street infrastructure maintenance backlog and a \$29 million annual shortfall. Despite the need in this area, additional reductions are necessary to balance the budget and will have an impact on the condition of streets in the short and long term. The Proposed Budget does add \$5 million citywide in one-time funds to address the most immediate infrastructure maintenance needs. A Sustainability Officer also is proposed to support the Green Vision's Smart Streetlights and tree planting initiatives and to develop more sustainable practices in transportation activities.

Proposed budget impacts include the elimination of approximately one third of the Landscape Maintenance program that will affect five filled and two vacant positions. This means that each of the remaining maintenance workers would be responsible for the care of 12 acres of landscape (in 2007-2008 they covered 8.3 acres), nearly five times more than the industry standard of 2.5 acres per worker as referenced in the Transportation Maintenance Master Plan (TMMP). Funding of five Pavement positions is proposed to be shifted out of the General Fund and into the Traffic CIP, which would allow these positions to continue to seal, maintain, and repair the City's pavement. Although this will result in less funding available for actual pavement miles, the shift is necessary to deliver the pavement program and will also generate \$276,000 in General Fund savings. As approved by the City Council in its 2007-2008 Adopted Budget, the 2008-2009 Proposed Operating Budget eliminates the remaining elements of tree maintenance provided by the City. Over the last several years, tree maintenance services have been reduced, and responsibility for trimming shifted back to property owners, who have always been legally required to maintain them. With the elimination of these ten tree maintenance positions, emergency maintenance will become the responsibility of property owners starting in 2008-2009. Funding is proposed for contractual services to ensure that the most urgent tree emergencies can continue to be addressed in a timely manner. Property owners will receive a bill to reimburse the City for those services, except in hardship cases.

Following the City Council's November 2007 approval of the TMMP – which confirmed needs, community priorities, and funding alternatives – staff is focused on implementing the recommended strategies to address one-time and ongoing funding shortfalls. Exploration of a Landscape and Lighting District is one such strategy that is also included on the workplan for the Three-Year General Fund Structural Deficit Elimination Plan Team. Should the City Council approve further exploration of such an approach, staff would begin the multi-year process that could lead to this new approach to funding these popular and important services, as well as to address some of the unmet and deferred infrastructure and maintenance needs included in the General Fund Structural Budget Deficit. Staff will also continue to pursue federal and state funding sources, and leverage those funds for the greatest possible improvement to transportation assets.

Engineering efforts that support the safety and efficiency of the traveling public have largely been left intact to reflect the priorities of the City and its residents. The Traffic Calming policy is under



## 2008–2009 PROPOSED BUDGET MESSAGE

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### City Service Areas (Cont'd.)

#### *Transportation and Aviation (Cont'd.)*

review, and updates will be brought to the City Council in spring 2008. The budgetary impact of any changes will need to be closely monitored.

Over the past year the Airport has made remarkable progress with Phase 1 of the Terminal Area Improvement Program (TAIP), a comprehensive \$1.3 billion capital program that is replacing and upgrading terminals, roadways, and parking facilities. TAIP continues to be on budget and on schedule for completion in 2010; design has been completed in the past year, and construction is now underway throughout the Airport. The City successfully placed a \$725 million airport revenue bond issue in summer 2007 that provides the capital resources for the construction program. In addition, the Airport implemented its new Airline Signatory Agreement that represents a new business model of “shared use” for ticket counters and aircraft gates, which benefits both the Airport and its airline partners by enhancing the efficiency of facilities and operations and reducing costs. New agreements with rental car companies operating at the Airport also support the construction of a modern convenient rental car garage located adjacent to the new terminal, and a new concession program will result in restaurants and shops that provide higher quality services to passengers and reflect the unique character of San José and Silicon Valley. A new advertising concession agreement will contribute new revenues to the Airport in the coming years.

However, the aviation industry system continues to face serious economic challenges that are affecting passenger traffic levels at airports across the nation. The combination of the national credit crisis and the steep increase in the cost of fuel in the past year has led to airline bankruptcies, major merger proposals, and reductions of flights and domestic capacity throughout the air transportation system. Locally, the Airport has seen its annual passenger traffic slip nearly one percent over the past year instead of the anticipated growth that had been projected to be around three percent. Although long-term projections indicate that air traffic will grow over the next decade, short-term industry uncertainties will contribute to local uncertainties for the Airport, and the Airport has adjusted its projections to reflect the current trends as it continues its efforts to bring additional air service to San José.

The Airport’s 2008-2009 Proposed Operating Budget meets the fiscal requirements of the TAIP construction program, new economic realities, and the planned activation of new facilities starting in mid-2009. The impact of airline industry constraints and construction impacts have been recognized with a more conservative forecast of passenger traffic growth of 1%. Nine positions have been added to support pedestrian and traffic safety on Airport roadways, the start-up of the North Concourse, safety and security coordination with federal agencies, and greater environmental coordination. No service reductions have been proposed. The airlines’ cost per enplaned passenger (CPE) has been reduced to \$9.00 from the prior \$10.26, continuing the Airport’s commitment to its partners to sustain the low-cost competitive advantage they have in San José. The airline rate stabilization reserve also has been replenished by more than \$4 million, which will help maintain the low CPE in the coming year in light of reduced traffic growth.

For both surface and air transportation systems, the 2008-2009 Proposed Budget reflects the City’s continued commitment to conservative fiscal management by adjusting services and service levels as

## 2008–2009 PROPOSED BUDGET MESSAGE

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### **City Service Areas** (Cont'd.)

#### ***Transportation and Aviation*** (Cont'd.)

needed to match the availability of resources. Simultaneously, however, this CSA is also moving aggressively to pursue enhanced revenues as well as legislative and grant opportunities wherever practical that could provide additional funding for critical needs.

#### ***Environmental and Utility Services***

The City's Green Vision, adopted in October 2007, will guide many critical efforts in the Environmental and Utility Services CSA. Several budget augmentations, including \$1.4 million in Green Vision seed money in the General Fund, are recommended to accelerate the achievement of the Green Vision Goals, as well as the Urban Environmental Accords Actions adopted by Council in November 2005. However, the City's commitment to the Green Vision is much broader, with more than \$7.6 million in recommendations from a number of City funds, for a variety of programs such as the Multi-family Dwelling Waste diversion, Construction and Demolition Recycling, the "Zero Waste" Organic Materials Recovery program, an Environmental Sustainability Office in Transportation, the Green Retrofit and Green Street projects.

The City's large utilities, based in this CSA, have a national reputation for providing proactive and innovative environmental services. Largest among the water-related utilities is the *San José/Santa Clara Water Pollution Control Plant* which, coupled with the City's *Sanitary Sewer System*, protects public health and the environment by transporting wastewater from homes and commerce through 2,200 miles of pipelines, pump stations, and other facilities to the Plant for treatment and discharge. The Plant is more than 50 years old and in need of major repair and improvements estimated to cost a total of \$1 billion over the next 10 to 15 years – making this the second largest capital improvement project in the City's history. A total of \$250 million in critical infrastructure needs have been identified for completion within five years.

A Plant Master Plan effort began in 2007 to shape development the Plant. In the 2008-2009 Proposed CIP, the Water Pollution Control Capital Budget is proposed to increase by \$35 million to continue addressing the infrastructure needs at the Plant. Significant projects in the five-year CIP include electrical system reliability (\$55.4 million), digester rehabilitation (\$43 million), and structural rehabilitation (\$47.4 million). One of the Master Plan goals is to become 100% energy self-sufficient in five years and carbon neutral in 20 yrs. The Plant consumes 70% of all the energy used in all of the City facilities and buildings combined. Therefore, the implementation of the Plant Master Plan will provide considerable progress toward achieving Green Vision Goal #3, to *receive 100 percent of our electrical power from clean renewable resources*.

Parts of *San José's Sanitary Sewer System* are also over 50 years old. A Sanitary Sewer Condition Assessment will be conducted in 2008-2009 to assess the physical condition of the system. The assessment will be used to develop a plan to minimize system blockages or failures, pavement failures, and to assist in reduction of grit loading to the Water Pollution Control Plant. In addition, \$700,000 is being recommended for specialized trucks for cleaning sanitary sewers to prevent neighborhood sewer back-ups.

## 2008–2009 PROPOSED BUDGET MESSAGE

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### **City Service Areas** (Cont'd.)

#### ***Environmental and Utility Services*** (Cont'd.)

The *Storm Sewer System* protects homes and commerce from flooding by diverting run-off flows into local waterways through another massive network of pipelines, pump stations, and outfalls. Major projects in the five-year Storm Sewer CIP include storm sewer system GIS mapping improvements (\$450,000) and continued storm pump station rehabilitations (\$500,000). An additional \$700,000 would fund replacement of three street sweepers.

The City's *National Pollutant Discharge Elimination System Stormwater Permit* is scheduled to be renewed in fall 2008, and significant funding increases will be required to implement the new permit requirements. Although specific program augmentations and staffing needs cannot be determined until the permit is issued, a reserve of \$2.9 million is recommended to be established in the proposed Storm Sewer Operating Fund budget and appropriated when the permit is adopted.

To fund sewer-related capital improvements, equipment purchases, and permit reserve, in November 2007 Council approved a conceptual residential rate increase strategy of 15% (averaging \$3.53 per customer per month) in both 2008-2009 and 2009-2010 for the Sewer Service and Use Charge Fund. Proposition 218 notifications were sent to all property owners in April 2007 to advise them of: 1) a three-year rate increase plan which would increase the Sewer Service and Use Charge Fee by 9% in 2007-2008 and up to 15% in 2008-2009 and 2009-2010; and, 2) a rate increase plan that would increase the Storm Sewer Service Fee by 9% in 2007-2008 and up to 30% (averaging \$1.35 per customer per month) in 2008-2009 and 2009-2010.

Another important initiative for 2008-09 involves recycling and food composting efforts that will bring San José closer to becoming a Zero Waste City and achieving the Green Vision goal of diverting 100 % of waste from local landfills and converting waste to energy.

*Recycle Plus*, the City's solid waste utility, proposes to raise single-family (SFD) rates by 4.5%, (\$1.15 monthly/customer) to fund increased fuel costs related to the hauling contracts, and multi-family (MFD) rates by 8% (\$13.17 monthly/customer) to fund cost-of living increases. Property owners were advised on April 2007 of potential SFD and MFD rate increases of up to 10% in 2008-2009 and 2009-2010. The MFD rate increase would also fund an expanded recyclables and garbage collection contract with Green Team, which will allow the City to recover recyclables and food waste for composting – and will more than double the current MFD diversion rate of 35%. Funding of \$411,000 will add two positions and contractual services to implement an Organics Resource Management program Citywide, and will help identify and develop biomass energy options, and another \$400,000 would provide more bins for the Neighborhood Clean-up Program, capturing more residential debris from do-it-yourself remodels.

The development and construction of the Las Plumas Eco-Park will support several Green Vision goals relating to waste diversion, energy and water conservation, and green buildings. In 2008-09, approximately \$2 million of City funds will support the first phase of the facility development, which includes exterior site improvements and a Household Hazardous Waste (HHW) drop-off facility, scheduled to open in late 2008. The County will provide funding and staff all activities associated with the HHW program. The second phase of the Eco-Park is slated for development in late 2010.

## 2008–2009 PROPOSED BUDGET MESSAGE

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### **City Service Areas** (Cont'd.)

#### ***Environmental and Utility Services*** (Cont'd.)

Expansion of the *Recycled Water System* continues, supporting the Green Vision goal to recycle or beneficially reuse 100 percent of our water. In 2008-09, the system will expand to existing and new developments in North San José, Happy Hollow Park and Zoo, and the former General Electric Plant. In addition, several customers in Milpitas will be retrofitted. A critical aspect of achieving this goal is to expand recycled water use by enhancing its quality. The City will also continue work with the Water District on design and construction of an Advanced Recycled Water Treatment Plant that will be able to treat 8 million gallons per day and reduce salinity. Another position is proposed to support the development and implementation of the City's Water Conservation Program.

The cost of purchasing potable water from two local wholesalers, which are themselves addressing infrastructure issues, is driving the need for rate increase of up to 8.8% (\$3.15 per customer per month) for all customers served by the *San José Municipal Water System* (SJMWS). SJMWS will publish a notice in the newspaper in late May 2008 in advance of City Council final approval of the budget. In addition, SJMWS also will send a direct mailing to all customers notifying them about the scheduled date for council consideration of the rate increase. Rate increases will provide \$1.9 million in additional revenue for 2008-09.

#### ***Strategic Support***

Budget, resource and staffing reductions in the past five years continue to have a cumulative effect on the Strategic Support CSA, further limiting each department's ability to deliver a wide variety of key services to both City employees and residents. Despite the need to cut and recalibrate the work we do, we still have significant programs to deliver with the funding that remains. We must continue to invest in these critical behind-the-scene functions to ensure that the organization is well-managed, trained, and developed, with the high morale, tools, and equipment necessary to deliver services to the community. As we strive for efficiencies and manage the work flow, we are still working through the cuts and changes while searching for new ways of doing business. Our success in managing through these changes rests on the shoulders of the Strategic Support CSA. The City's ability to achieve high performance levels in the face of these long-running reductions is a testament to the continued hard work and dedication of its employees. This Proposed Budget includes recommendations to generate additional revenues, bring certain services into cost recovery where possible, as well as reduce expenses by consolidating services, shifting funding sources, eliminating vacancies and "contracting in."

*Maintain a high performing workforce that is committed to exceeding customer expectations* – One-third of the City's workforce will be eligible to retire within the next five years. To address this challenge, workforce planning and recruitment efforts are underway. Of the three temporary Human Resources positions that were added last fiscal year to assist with filling vacancies more quickly, one is proposed to be made permanent in this budget. This will help the CSA meet budget reduction targets while still supporting recruitment efforts. The addition of a Senior Analyst position in Human Resources is also recommended to focus on succession planning at the Water Pollution Control Plant due to the large number of retirements that will occur there within the next few years. The lessons learned with this initiative will also be applied citywide, where we face a similarly daunting number of potential retirements in the near-term.

## 2008–2009 PROPOSED BUDGET MESSAGE

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### City Service Areas (Cont'd.)

#### ***Strategic Support*** (Cont'd.)

Another workforce challenge centers on the costs of retirement health care which has been pushed to the forefront as a result of the Government Accounting Standards Board (GASB) statements 43 and 45. GASB 43/45 requires public sector employers to report their net present liability for future retiree benefits on an accrual basis versus pay-as-you-go. This budget proposal recommends ongoing funding of \$1.9 million (\$1.5 million in the General Fund) to begin to address this issue. While the City remains committed to engaging employees in meaningful discussions about this significant issue affecting our budget, staff also is looking for ways to improve operations and reduce costs. Consequently, this budget proposes a \$314,000 allocation to fund in 2008-2009 a two-year pilot Wellness Program for plan participants beginning in 2008-2009 that will promote healthy lifestyles, prevent chronic health problems and decrease the use of health care services through disease management services, health risk assessments, wellness events, and classes. Over time, it is anticipated that this program would then lower total health-related costs and health insurance increases. To achieve these objectives, a temporary Analyst and Senior Medical Assistant are proposed to be added and funded through the General Fund and Retirement Funds. The City's health care providers and Retirement Funds have agreed to reimburse the City for a significant portion of this program.

*Safe and functional public infrastructure, facilities and equipment* – Construction activity funded by the Capital Improvement Program (CIP) is still at its peak in 2008-2009 due to delivery requirements of Bond-funded projects in the Parks, Library, and Public Safety Bond Programs. A total of 269.91 positions in the Public Works Department will support CIP construction projects. However, as the *Decade of Investment* draws to a close with the expected completion of a significant portion of Bond and Airport Capital projects by 2009-2010, staff has begun an analysis of the citywide impacts of this contraction in CIP staffing needs. Public Works also is proposing funding to continue a major update of the City's *Standard Specifications and Details for Construction Projects* (\$200,000) last revised in 1992. Through fewer contractor claims, better project bids, and alignment with the latest statutes, codes, regulations, and policies, this multi-year project which began in 2007-2008 is expected to save time and money for staff, contractors and consultants. The cost of this update is expected to be repaid to the General Fund via the Public Works Program Support Fund and the Public Works Fee Program over the course of the next six years.

As stated in the Management Partners Structural Deficit Report, the establishment of a rigorous asset management program could generate significant revenues to the City. Such a program could potentially span strategies such as property leases, civic facility reuse, surplus property sales, and public-private partnerships, and staff is currently reviewing options and potential steps toward an overall policy framework to support asset management decision-making. In order to seed this work, the proposed budget includes \$100,000 toward development of a functional inventory of city-owned properties. This funding will enable staff to evaluate options for establishing a usable inventory through internal and/or private-sector based options, with the goal of improving the efficiency through which City properties can be evaluated for alternative uses. Staff work on specific properties will also continue in parallel with the inventory effort, in order to pursue near-term opportunities for revenue generation.

## 2008–2009 PROPOSED BUDGET MESSAGE

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### City Service Areas (Cont'd.)

#### *Strategic Support* (Cont'd.)

General Services is proposing several items in response to the need to meet new service demands, generate General Fund savings, maximize efficiency, and meet legislative requirements. At the direction of City Council, General Services assumed the full operation and maintenance of the Mexican Heritage Plaza for a 15-month period beginning April 1, 2008. During this period, the department will coordinate the facility's event programming, as well as ensure maintenance and repair activities are performed. To more efficiently manage fleet maintenance, several maintenance operations at other locations are proposed to be consolidated to the Central Service Yard. Fleet Management staff is also continuing to comply with state requirements to retrofit the City's on-road diesel-powered heavy duty vehicles with advanced emission control technology by 2011. In addition, this budget proposes to raise the rates for events at City Hall to be more consistent with market rates and achieve greater cost recovery, while also ensuring the facility remains accessible and affordable for the community. The rate increases are anticipated to generate an additional \$20,000 in General Fund revenue in 2008-2009.

*Effective use of state-of-the-art technology* – In support of the mission to enable service delivery to all customers, the City's Customer Contact Center was incorporated into the Information Technology Department during 2007-2008. Eleven permanent customer service representative positions were added, with an additional eight positions funded through 2007-2008. To further stabilize Customer Contact Center operations and help staff provide better customer service, two of the eight temporary positions have been proposed for extension through 2008-2009. In addition, the Information Technology Department continues to implement and explore areas of improvement. These include an on-line bill payment feature and development of alternative information systems such as web updates and direct call routing to haulers (for service related issues) that allow customers to get assistance without speaking to a call-taker.

With the dynamic nature and advancement of technology, information security has become a primary concern of government and businesses over the past several years. In 2007-2008, \$48,000 was used to improve security through the redesign of the firewall for the City's internet connection, and \$500,000 was appropriated to perform Information Security and Network Architecture audits. The Information Security Audit will provide a confidential assessment of the current environment, assess risk for critical exposures and vulnerabilities, and provide recommendations for improvement. The audit will be followed by an RFP for Network Architecture and funded by the remaining balance in this appropriation.

*Sound fiscal management that facilitates meeting the needs of the community* – Through a combination of technology funding and staffing and fee additions, the Business Tax Certificate program is undergoing significant improvements. The migration of the Business Tax Application from the VAX to the new Integrated Billing System is expected to be complete in December 2008 using \$1,900,000 appropriated in 2007-2008. In addition, this budget proposes instituting a \$22 fee to recoup the \$1.4 million annual costs to process the Business Tax Certificate applications, and adds two date-limited Investigator-Collectors who will proactively identify and collect fees from delinquent businesses. It is anticipated that the City will receive a 2-to-1 return on the cost of these positions. Finally, a Sidewalk Lien Administrative Fee (\$45 per Sidewalk Lien Account application)

## 2008–2009 PROPOSED BUDGET MESSAGE

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### City Service Areas (Cont'd.)

#### *Strategic Support (Cont'd.)*

is proposed to bring the administration of this program into cost recovery. To remove a lien on their property for unreimbursed sidewalk repairs, residents will have to pay this proposed fee in addition to the costs of the work performed by the City.

For Strategic Support, the proposed 2008-2009 budget is an overall reduction from 2007-2008. Strategic Support continues to remain vigilant and is researching new methods to deliver services in a more efficient manner while maintaining critical components of core services.

### CONCLUSION

The 2008–2009 Proposed Operating Budget successfully closes a \$29.6 million General Fund shortfall primarily with ongoing reductions, but also with the strategic use of reserves, one-time dollars, and with fee increases designed to maximize cost recovery in a number of areas. We believe the blend of solutions represents a sound approach to balancing the budget and provides over \$900 million in the General Fund and \$2 billion in all operating funds to continue providing the comprehensive mix of quality services that regularly elicits high satisfaction levels from our residents. While a number of positions have been eliminated, we have been able to strategically add positions to meet critical needs. We have established a fund to evaluate how best to optimize delivery of certain services as a structural deficit reduction strategy, and we have also set aside a significant initial down payment toward the City's unfunded Retirement Health Care liability. Significant funding for the Green Vision initiatives is included and while the list of unmet needs in the area of infrastructure maintenance remains long, we have been able to set aside significant dollars to be used in addressing the substantial backlog that continues to grow. We have maintained our commitment to provide essential services, adding resources in the Public Safety CSA, and have maintained the City Council's commitment to neighborhoods. This plan maintains the sound financial discipline that has allowed us to manage through the long recession.

I want to express my appreciation to the City workforce, which continues to display such a high degree of professionalism and commitment even as we enter a seventh year of reductions that require our employees to do more with less. My appreciation also goes out to all of the dedicated City employees who have worked closely with the Administration as we moved through this budget process. In particular, I want to acknowledge and express my sincere appreciation to the many employees at all levels of the organization, but most especially the administrative staff in City departments as well as the entire Budget Office, who work countless hours and contribute so much to the preparation and production of this budget document.



Debra Figone  
City Manager